

GARDNER COMMUNITY
WATER ASSOCIATION, INC.
GARDNER, LOUISIANA
SEPTEMBER 30, 2010 AND 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/15/10

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ADLER & PIAS

LLC

CERTIFIED PUBLIC ACCOUNTANTS

William A. Paddie, CPA
W. Stephen Pearce, CPA
Paul W. Blais, CPA

Established 1961

2010 Gus Kaplan Drive
Alexandria, Louisiana 71301-3358

Phone (318) 445-9342
Fax (318) 445-9344
WAPaddie@aol.com

Members
American Institute of
Certified Public Accountants

Society of Louisiana
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Gardner Community Water Association, Inc.

We have audited the accompanying statement of financial position of Gardner Community Water Association, Inc. (a nonprofit organization) as of September 30, 2010 and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Gardner Community Water Association Inc.'s September 30, 2009 financial statements and, in our report dated November 10, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gardner Community Water Association, Inc. as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2010, on our consideration of Gardner Community Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Adler & Pias, LLC
Adler and Pias, LLC

November 9, 2010

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Gardner Community Water Association, Inc.

We have audited the financial statements of Gardner Community Water Association, Inc. (a nonprofit organization) as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated November 9, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gardner Community Water Association, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gardner Community Water Association, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as item 2010-001. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gardner Community Water Association, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Gardner Community Water Association, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Gardner Community Water Association, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the State of Louisiana Department of Health and Hospitals, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Adler & Pias, LLC
Adler and Pias, LLC

November 9, 2010

ADLER & PIAS LLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Gardner Community Water Association, Inc.

Compliance

We have audited Gardner Community Water Association, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gardner Community Water Association, Inc.'s major federal programs for the year ended September 30, 2010. Gardner Community Water Association, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Gardner Community Water Association, Inc.'s management. Our responsibility is to express an opinion on Gardner Community Water Association, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gardner Community Water Association, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gardner Community Water Association, Inc.'s compliance with those requirements.

In our opinion, Gardner Community Water Association, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of Gardner Community Water Association, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gardner Community Water Association, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gardner Community Water Association, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely

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(Continued)

basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Gardner Community Water Association, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gardner Community Water Association, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the State of Louisiana Department of Health and Hospitals, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Adler and Pias, LLC

November 9, 2010

GARDNER COMMUNITY WATER ASSOCIATION, INC.
GARDNER, LOUISIANA
STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30,

ASSETS

Current Assets:	2010	2009
Cash and Cash Equivalents	383,244	267,370
Accounts Receivable - Members	56,797	56,558
Total Current Assets	440,041	323,928
 Cash - Reserve Funds	 42,247	 -0-
 Property, Plant and Equipment	 1,687,627	 1,113,103
Other Assets:		
Utility Deposits	205	205
 TOTAL ASSETS	 <u>2,170,120</u>	 <u>1,437,236</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accrued Interest Payable	2,737	562
Accrued Payroll Taxes and Withholding	3,265	3,961
Member Deposits	7,745	5,807
Current Maturities of Long Term Debt	23,077	91,683
Total Current Liabilities	36,824	102,013
 Long Term Debt	 459,172	 47,086
 Total Liabilities	 <u>495,996</u>	 <u>149,099</u>
Net Assets:		
Unrestricted	1,631,877	1,288,137
Temporarily Restricted	42,247	-0-
Permanently Restricted	-0-	-0-
Total Net Assets	1,674,124	1,288,137
 TOTAL LIABILITIES AND NET ASSETS	 <u>2,170,120</u>	 <u>1,437,236</u>

The accompanying notes are an integral part of these financial statements.

GARDNER COMMUNITY WATER ASSOCIATION, INC.
GARDNER, LOUISIANA
STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30,

	Unrestricted	Temporarily Restricted	2010	2009
OPERATING REVENUE:				
Water Sales	548,804	-0-	548,804	542,301
Meter Installation	5,323	-0-	5,323	5,670
Service Charge and Reconnect Fee	10,284	-0-	10,284	11,547
Membership Fees	2,050	-0-	2,050	1,850
Total Operating Revenue	566,461	-0-	566,461	561,368
OPERATING EXPENSES:				
Depreciation	83,875	-0-	83,875	76,905
Interest	7,018	-0-	7,018	7,972
Wages	124,913	-0-	124,913	117,308
Utilities	30,280	-0-	30,280	34,013
Repairs and Maintenance	20,649	-0-	20,649	26,125
Supplies	26,290	-0-	26,290	18,353
Insurance	27,030	-0-	27,030	25,853
Legal and Audit	4,500	-0-	4,500	5,508
Mileage	925	-0-	925	749
Office Expense	4,610	-0-	4,610	6,626
Bad Debts	3,379	-0-	3,379	3,596
Payroll Taxes	9,773	-0-	9,773	9,142
Pension Expense	3,733	-0-	3,733	3,372
Telephone	5,387	-0-	5,387	3,899
Postage	5,767	-0-	5,767	6,015
Dues and Subscriptions	820	-0-	820	275
Collection Expense	-0-	-0-	-0-	2,643
Misc.	6,120	-0-	6,120	7,728
Bank Charges	2,369	-0-	2,369	1,422
Total Operating Expenses	367,438	-0-	367,438	357,504
INCOME FROM OPERATIONS	199,023	-0-	199,023	203,864
NON OPERATING INCOME:				
Interest Income	467	-0-	467	860
Other Income	186,497	-0-	186,497	-0-
Total Non Operating Income	186,964	-0-	186,964	860
CHANGE IN NET ASSETS	385,987	-0-	385,987	204,724
NET ASSETS, BEGINNING OF YEAR	1,288,137	-0-	1,288,137	1,083,413
Transfers - Loan Reserves	(42,247)	42,247	-0-	-0-
NET ASSETS, END OF YEAR	1,631,877	42,247	1,674,124	1,288,137

The accompanying notes are an integral part of these financial statements.

GARDNER COMMUNITY WATER ASSOCIATION, INC.
GARDNER, LOUISIANA
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30,

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2010</u>	<u>2009</u>
Change in Net Assets	385,987	204,724
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided by Operations:		
Depreciation	83,875	76,905
Change in Assets and Liabilities:		
Accounts Receivable - Members	(239)	(20,015)
Cash - Reserve Funds	(42,247)	-0-
Accounts Payable	-0-	(11)
Accrued Interest Payable	2,174	(144)
Accrued Payroll Taxes and Withholding	(695)	(111)
Member Deposits	1,938	1,316
Total Adjustments	<u>44,806</u>	<u>57,940</u>
Net Cash Provided by Operating Activities	<u>430,793</u>	<u>262,664</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Expenditures	<u>(658,399)</u>	<u>(211,705)</u>
Net Cash Used by Investing Activities	<u>(658,399)</u>	<u>(211,705)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan Proceeds	435,159	80,000
Repayments of Notes Payable	<u>(91,679)</u>	<u>(88,519)</u>
Net Cash Provided/(Used) by Financing Activities	<u>343,480</u>	<u>(8,519)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	115,874	42,440
CASH - BEGINNING OF YEAR	267,370	224,930
CASH - END OF YEAR	<u><u>383,244</u></u>	<u><u>267,370</u></u>
Supplemental Disclosure:		
Interest Paid	4,843	8,116

The accompanying notes are an integral part of these financial statements.

**GARDNER COMMUNITY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

Gardner Community Water Association, Inc. was incorporated on March 31, 1970. Construction of the water system was financed by loans and grants from the Farmers Home Administration (USDA Rural Development Service). The system now serves approximately 1,415 customers.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation:

The water system is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents:

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

Property, Plant and Equipment:

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight line and MACRS methods for both financial statements and information reporting. It is the water system's policy to capitalize property and equipment which will benefit the water system for more than one year.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes:

The water system is exempt from federal income taxes under section 501 (c)(12) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements.

Allowance for Doubtful Accounts:

Management has experienced extremely low bad debts over the past several years, for this reason an allowance for doubtful accounts has not been recorded, but bad debts are charged to operations as they occur.

Compensated Absences:

Because of the immateriality of compensated absences, the water system has not attempted to accrue a liability for them.

**GARDNER COMMUNITY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Summarized Financial Information:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

Note 2. <u>SUMMARY OF CASH:</u>	<u>09/30/2010</u>	<u>09/30/2009</u>
<u>Current:</u>		
Petty Cash	100	100
Revenue Fund	325,738	209,937
Revenue Note Fund	57,416	57,333
Total	<u>383,254</u>	<u>267,370</u>
 <u>Reserve:</u>		
Depreciation Fund	31,035	-0-
Debt Service Fund	11,136	-0-
Construction Account	76	-0-
	<u>42,247</u>	<u>-0-</u>

All funds are on deposit in an FDIC insured institution.

Note 3. <u>ACCOUNTS RECEIVABLE:</u>	<u>09/30/2010</u>	<u>09/30/2009</u>
Current	55,393	55,574
31-60 days	44	146
Over 61 days	1,127	838
Total	<u>56,564</u>	<u>56,558</u>

The water system sold 94,447,000 and 91,202,000 gallons of water for the fiscal years ended September 30, 2010 and 2009 respectively.

Note 4. <u>PROPERTY, PLANT AND EQUIPMENT:</u>	<u>09/30/2010</u>	<u>09/30/2009</u>
Land	24,568	24,568
Office Building	127,403	118,885
Water System	2,395,931	1,757,275
Office Equipment	22,539	21,875
Truck and Equipment	185,243	174,680
Total Cost	<u>2,755,684</u>	<u>2,097,283</u>
Accumulated Depreciation	(1,068,056)	(984,181)
Book Value	<u>1,687,627</u>	<u>1,113,103</u>

Note 5. PENSION PLAN AND HEALTH INSURANCE:

The water system has established a Simple IRA plan covering all full time employees. The Plan allows for employee contributions to the Plan up to the maximum amount allowed by the Internal Revenue Service Code. The water system matches employee contributions up to a maximum of 3% annually. The water system also provides health insurance for full time employees.

GARDNER COMMUNITY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6. NOTES PAYABLE:

Loan No. / Date Originated	Original Loan	Balance 09/30/10	Balance 09/30/09	Term and Rate
01				7 years
10/26/2004	346,000	-0-	69,512	5.75%
N/A				3.5 years
02/03/2009	80,000	47,090	69,257	4.00%
1079010-1				20 years
02/19/2008	* 1,410,000	435,159	-0-	3.45%
Total	<u>1,836,000</u>	<u>482,249</u>	<u>138,769</u>	

Maturities of long-term debt for the next five years are:

2011	23,077
2012	24,013
2013	-0-
2014	-0-
2015	-0-
	<u>47,090</u>

The maturities of long term debt only includes the loan dated 02/03/2009.

* Only \$435,159 of the \$1,410,000 has been borrowed as of September 30, 2010.

Note 7. LONG-TERM DEBT:

In the fiscal year ended September 30, 2010 the water system received \$621,656 from the Louisiana Department of Health and Hospitals (DHH). Of this amount \$186,497 is grant money from the American Recovery and Reinvestment Act (ARRA), Series 2009A and \$435,159 is a non-ARRA, Series 2009B loan. The principal of the note is payable in annual installments commencing not later than one year after the completion date of the project, and will be fully amortized not later than twenty years after the completion of the project. The proceeds will be used for a new well and elevated tank.

Note 8. RESERVE REQUIREMENTS:

Under the terms of the DHH Drinking Water Revolving Loan Fund, the water system is required to maintain cash reserve funds. Required reserves as follows:

DHH	Loan 1079010-1	2010	2009
Debt Service Reserve Fund		32,000	-0-
Depreciation and Contingency Fund		25,000	-0-
Total		<u>57,000</u>	<u>-0-</u>

Note 9. LONG-TERM DEBT OBLIGATIONS:

The amounts required to amortize the DHH Series B loan are as follows:

September 30	Principal	Interest	Total
2011	-0-	17,026	17,026
2012	35,000	17,026	52,026

The above figures are estimated based on projected drawdown for the first two years.

**GARDNER COMMUNITY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 10. BOARD OF DIRECTORS:

	<u>Office</u>	<u>Term</u>
Harlis Bass 9863 Hwy. 28 Boyce, LA 71409	President	2008-2010
Wayne Vallery 220 Ward Road Boyce, LA 71409	Vice Pres.	2010-2012
Paula Chandler 410 McDaniel Road Boyce, LA 71409	Director	2010-2012
Evert Handy 162 Sugarmill Road Boyce, LA 71409	Director	2009-2011
Robbie Long 226 St. Clair Road Boyce, LA 71409	Director	2008-2010
Scott Emery 78 Treasure Trail Boyce, LA 71409	Director	2009-2011

Lynda Winegeart is the system's bookkeeper and also serves as the Board's Secretary/Treasurer. The office phone number is (318)793-4568.

Note 11. INSURANCE COVERAGE:

<u>Company</u>	<u>Expiration</u>	<u>Coverage</u>	<u>Amount</u>
American First Insurance Co.	01/12/2011	Structures	\$582,921
		General Liability:	
		Each Occurrence	\$1,000,000
		General Aggregate	\$2,000,000
		Employee Dishonesty	\$50,000
		Equipment	\$59,780
Federal Insurance Company	11/12/2010	Director's & Officers	\$1,000,000
LWCC	09/29/2011	Workman's Compensation:	
		Each Accident	\$100,000
		Policy Limit	\$500,000
		Each Employee	\$100,000
Hallmark Specialty Insurance Company	04/01/2011	Business Auto: Liability	 \$1,000,000

Insurance is provided through Brown and Brown Insurance and Regions Insurance.

GARDNER COMMUNITY WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 12. MEMBERSHIP:

A nonrefundable membership of \$50.00 is charged to property owners and there is a \$75.00 refundable deposit collected from renter's.

Note 13. WATER LINE RIGHT OF WAYS:

The water system rents water line right-of-ways from the U.S. Forestry Service.

Note 14. WATER RATE SCHEDULES :

Standard Meter:

0-2,000 gallons	\$14.50
Each additional thousand gallons	\$4.50
Each additional thousand gallons 3,000 - 5,000	
Each additional thousand gallons 6,000 and above	

1" meter:

0-4,000 gallons	\$23.50
Each additional thousand gallons	\$4.50
Each additional thousand gallons up to 5,000	
Each additional thousand gallons 6,000 and above	

2" meter:

0-6,000 gallons	\$32.50
Each additional thousand gallons	\$4.50

Note 15. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK:

The water system maintains cash accounts at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured cash balances were \$175,391 and \$17,270, at September 30, 2010 and 2009, respectively.

Note 16. RELATED PARTY TRANSACTIONS:

The water system purchased property for an office building from an LLC, of which a Board member owned a twenty five percent interest, for \$100,000. The water system paid \$20,000 down and financed \$80,000 for forty two months at four percent interest.

Note 17. EVALUATION OF SUBSEQUENT EVENTS:

The water system has evaluated subsequent events through November 9, 2010, the date which the financial statements were available to be issued.

**GARDNER COMMUNITY WATER ASSOCIATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

<u>Federal Grantor/ Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Dept. of Environmental Protection Agency ARRA Drinking Water State Revolving Fund	66.468	\$435,159
U.S. Dept. of Environmental Protection Agency Drinking Water State Revolving Fund	66.468	\$186,497

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant and loan activity of Gardner Community Water Association, Inc. under programs of the federal government for the year ended September 30, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Gardner Community Water Association, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Gardner Community Water Association, Inc.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, where certain types of expenditures are not allowable or are limited as to reimbursement.

There were no federal expenditures for the year ended September 30, 2009.

**GARDNER COMMUNITY WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditor's Results:

The auditor's report expresses an unqualified opinion on the financial statements of Gardner Community Water Association, Inc.

One significant deficiency disclosed during the audit of financial statements are reported in the "Independent Auditor's Report on Compliance with Requirements that Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133".

No instances of noncompliance material to the financial statements of Gardner Community Water Association, Inc., which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the "Independent Auditor's Report on Compliance with Requirements that Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133". The deficiency is not reported as a material weakness.

The auditor's report on compliance for the major program for Gardner Community Water Association, Inc. expresses an unqualified opinion on the major federal program.

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

The program tested as a major program is:

U.S. Dept. of Environmental Protection Agency
Drinking Water State Revolving Fund

CFDA No.
66.468

Gardner Community Water Association, Inc. was determined to be a high risk auditee.

Findings - Financial Statement Audit:

2010-001 Segregation of Duties

Condition: Gardner Community Water Association, Inc. does not have a proper segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that transactions are properly recorded.

Cause: The water system has a small accounting staff.

Effect: Some transactions may not be entered correctly or may not be entered timely.

**GARDNER COMMUNITY WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Recommendation: The Board of Director's should take a more active role in reviewing the operations of the water system.

Views of Responsible Officials and Planned Corrective Actions: The Board agrees with the finding and the recommended procedures will be implemented.